

FACT SHEET

TAX RELIEF 2006 INITIATIVES

With a strong economy and a healthy budget surplus, tax relief is the right thing to do and now is the right time to do it. The Lingle-Aiona Administration is again proposing significant tax relief targeted to help Hawai'i's lowest wage earners and to offset the high costs of food, medicine, housing, gasoline and the other essentials of life.

Raise the Standard Deduction and Widen the Income Tax Brackets

This bill combines two sensible ideas for tax relief — changing the standard deduction and widening the tax brackets. The State standard deduction has not been increased since 1989. The tax brackets were last widened in 1998. Tax experts, including the Tax Review Commission, recommend these changes to allow wage earners to keep more of their take home pay.

First, this proposal would increase the standard deduction to 75% of the federal level. Married couples filing jointly would be able to claim a deduction of \$7,500 instead of \$1,900 they can deduct today. The federal government allows a \$10,000 for joint filers. Heads of households would be allowed to deduct \$5,475 instead of the current level of \$1,650. Single individuals would receive a deduction of \$3,750 rather than \$1,500.

Second, the bill would widen the tax brackets by 25%. Thus the State's maximum tax rate of 8.25% would apply to individuals making \$50,000 or more, rather than kicking in at a \$40,000 income level. The minimum tax bracket would range from \$0 to \$5,000 instead of the current range of \$0 to \$4,000.

Combining these two changes would reduce the tax burden on 81% of taxpayers and their dependents, and would mean 57,866 taxpayers and their dependents would no longer have to pay State taxes. A family of four with an adjusted gross income of \$50,000 per year would save \$568 in taxes.

The fiscal impact would be \$85.9 million per year.

One Time Tax Refund

This bill proposes a one-time immediate tax refund to each resident taxpayer and their dependents for all but the most wealthy.

Specifically the bill would provide a one-time tax refund in the amount of \$150 per person. Single individuals earning \$50,000 or less, heads of households earning \$75,000 or below, or married couples filing jointly earning \$100,000 or less would qualify for this refund.

The refund would be in the form of a check issued for tax year 2006 and sent to each qualified resident in early 2007. A couple with two children would receive \$600. This one time tax rebate would return \$128.5 million to a total of 856,890 residents, or 78% of our taxpayers and their dependents.

Tax Credit for Food, Medical Services, and Non-prescription Drugs

This bill provides relief from the impact of the GET Tax on food, medical services, and non-prescription drugs for residents earning \$50,000 or less adjusted gross income. The Lingle-Aiona Administration does not believe that people should be taxed for eating or getting sick.

This offset, taken in the form of a refundable tax credit, would be \$100 per exemption, or \$400 for a family of four. Elderly, blind, and disabled who are able to claim more than one exemption on their State tax return, will qualify for \$100 per exemption. This relief would return \$70.7 million and would apply to almost 707,000 taxpayers and their dependents.

These three tax relief measures will return \$285.1 million to the residents of Hawai'i. A family of four with adjusted gross income of \$50,000 or less would be eligible for \$1,568 in tax relief if these three measures are passed this year.